



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-2706  
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE  
ACTING AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS  
JOHN NAIMO  
MARIA M. OMS

April 7, 2008

TO: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy Watanabe*  
Acting Auditor-Controller

SUBJECT: **PASADENA UNIFIED SCHOOL DISTRICT CONTRACT COMPLIANCE  
REVIEW – A DEPARTMENT OF MENTAL HEALTH SERVICE  
PROVIDER**

We have completed a contract compliance review of Pasadena Unified School District (Pasadena USD or District), a Department of Mental Health (DMH) service provider.

**Background**

DMH contracts with Pasadena USD, an educational organization to provide services to clients in Service Planning Area 3. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. Pasadena USD's headquarters is located in the Fifth District.

Our review focused on approved Medi-Cal billings. DMH paid the District between \$1.88 and \$4.49 per minute of staff time (\$112.80 to \$269.40 per hour) for services. Pasadena USD's contract was for approximately \$2.2 million for Fiscal Year (FY) 2006-07.

**Purpose/Methodology**

The purpose of the review was to determine whether Pasadena USD complied with its contract terms and appropriately accounted for and spent DMH funds providing the services outlined in their County contract. We also evaluated the adequacy of the District's accounting records, internal controls and compliance with federal, State and

County guidelines. In addition, we interviewed a number of the District's staff and clients.

### **Results of Review**

Pasadena USD maintained documentation to support the services outlined in the contract. The District completed the Assessments, Client Care Plans and Progress Notes in accordance with program requirements. The staff possessed the required qualifications to provide services and the participants interviewed stated that the services they received met their expectations. We also noted areas where the District can improve documenting program expenditures. Specifically, the District:

- Paid a consultant \$11,000 per month to provide DMH services. The agreement required the consultant to work a minimum of 24 hours per week and provide proper documentation. Pasadena USD did not maintain documentation that indicated the consultant worked the minimum number of hours per week. Subsequent to our review, Pasadena USD obtained the appropriate documentation from the consultant that indicated the consultant worked the minimum number of hours.
- Charged DMH \$5,800 for a sub-contractor who provided non-DMH program services.
- Did not have a written Cost Allocation Plan. During FY 2006-07, the District charged all allocable expenditures to DMH for a program that serves DMH and non-DMH clients.

We have attached the details of our review along with recommendations for corrective action.

### **Review of Report**

We discussed the results of our review with Pasadena USD on February 13, 2008. In their attached response, the District described the corrective actions planned to address the findings and recommendations in our report.

The District's response also indicated that they submitted two revised FY 2006-07 Cost Reports to DMH subsequent to our review. According to the District, the revised Cost Reports reduced their reported program costs by the unallowable expenditures totaling \$5,800. DMH needs to review the Agency's most current Cost Report for FY 2006-07 to ensure the expenditures reported do not include the unallowable expenditures identified in this report.

Board of Supervisors  
April 7, 2008  
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We thank Pasadena USD management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer  
Dr. Marvin J. Southard, Director, Department of Mental Health  
Edwin Diaz, Superintendent, Pasadena Unified School District  
Public Information Office  
Audit Committee

**CONTRACT COMPLIANCE REVIEW  
PASADENA UNIFIED SCHOOL DISTRICT  
FISCAL YEAR 2006-07**

**BILLED SERVICES**

**Objective**

Determine whether Pasadena Unified School District (Pasadena USD or District) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

**Verification**

We judgmentally selected 30 billings totaling 2,852 minutes from 42,120 service minutes of approved Medi-Cal billings for May and June 2007. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' chart for the selected billings. The 2,852 minutes represent services provided to 20 program participants.

**Results**

Pasadena USD maintained documentation to support the billed service minutes sampled. In addition, the District generally completed the Assessments, Client Care Plans and Progress Notes in accordance with program requirements.

**Informed Consent**

Pasadena USD did not document Informed Consent in the client's chart for one (20%) of five clients sampled, in which the client received treatment with psychotropic medication. Informed Consent is the clients' agreement to a proposed course of treatment based on receiving clear, understandable information about the treatments' potential benefits and risks.

**Recommendation**

1. **Pasadena USD management ensure that Informed Consent is documented in the client's chart prior to treatment with psychotropic medication.**

**CLIENT VERIFICATION**

**Objectives**

Determine whether the program clients received the services that Pasadena USD billed DMH.

**Verification**

We interviewed eight participants that the District billed DMH for services during May and June 2007.

**Results**

The eight program participants interviewed stated that the services received from the District met their expectations.

**Recommendation**

**There are no recommendations for this section.**

**STAFFING LEVELS**

**Objective**

Determine whether the District maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the District does not provide services that require compliance with staffing ratios for this particular funding program.

**STAFFING QUALIFICATIONS**

**Objective**

Determine whether Pasadena USD treatment staff possessed the required qualifications to provide the services.

**Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 16 (52%) of the 31 Pasadena USD treatment staff who provided services to DMH clients during May and June 2007.

**Results**

Each employee in our sample possessed the qualifications required to deliver the services billed.

**Recommendation**

**There are no recommendations for this section.**

**SERVICE LEVELS****Objective**

Determine whether Pasadena USD's reported service levels varied significantly from the service levels identified in the DMH contract.

We did not perform test work in this area as DMH's contract with Pasadena USD did not specify the required service levels for each type of service provided for Fiscal Year (FY) 2006-07.

**CASH / REVENUE****Objective**

Determine whether cash receipts and revenue were properly recorded in the District's financial records and deposited timely in their bank account. In addition, determine whether the District maintained adequate controls over DMH cash and revenue.

**Verification**

We interviewed Pasadena USD's management and reviewed the District's financial records.

**Results**

Pasadena USD properly recorded and deposited cash receipts timely. In addition, the District maintained adequate controls over DMH funds.

**Recommendation**

**There are no recommendations for this section.**

**EXPENDITURES / PROCUREMENT****Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately charged to the DMH program. In addition, determine whether the District maintained sufficient internal controls over expenditures.

**Verification**

We interviewed District personnel, reviewed financial records and reviewed documentation to support 15 non-payroll expenditure transactions charged to the DMH program during FY 2006-07, totaling \$48,298.

**Results**

The District charged the DMH program for undocumented or unallowable expenditures. Specifically, the District:

- Paid \$11,000 to a consultant. The contract required the consultant to work at least 24 hours per week for \$11,000 per month. However, the District did not maintain documentation that indicated the consultant worked at least 24 hours per week. Subsequent to our review, Pasadena USD provided additional documentation that showed the consultant worked the required number of hours.
- Charged DMH \$5,800 for a sub-contractor who provided non-DMH program services for FY 2006-07.

In addition, the District's financial records combined DMH and non-DMH expenditures.

**Recommendations****Pasadena USD management:**

2. **Ensure that program expenditures are supported by adequate documentation.**
3. **Ensure that only allowable program expenditures are charged to the DMH program.**
4. **Repay DMH \$5,800 for the unallowable expenditures.**
5. **Establish a separate cost center for the non-DMH program.**

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether fixed assets and equipment charged to the DMH program are used in the mental health program and adequately safeguarded.

**Verification**

We interviewed staff and reviewed the District's fixed assets and equipment listing. In addition, we reviewed the District's accounting records and performed a physical inventory of 15 items.

**Results**

The fixed assets and equipment listing appropriately identified assets charged to DMH. In addition, the assets sampled were used by the DMH program and adequately safeguarded.

**Recommendation**

There are no recommendations for this section.

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll expenditures are appropriately charged to the DMH program. In addition, determine whether personnel files were maintained as required.

**Verification**

We traced payroll expenditures for 10 employees charged to the DMH program for the pay period ending June 30, 2007 to the payroll records and time reports. The payroll expenditures totaled \$37,607. We also reviewed their personnel files and interviewed the employees.

**Results**

Pasadena USD did not maintain time reports to support expenditures for salaried employees charged to the DMH program as required. The District maintained personnel files as required.

**Recommendation**

6. Pasadena USD management ensure that all staff expenditures charged to the DMH program are supported by time reports that reflect the actual hours worked, prepared at least monthly and are signed by the individual employee.

**COST ALLOCATION PLAN****Objective**

Determine whether Pasadena USD's Cost Allocation Plan is prepared in compliance with the County contract, and the District used the plan to appropriately allocate shared program expenditures.



**Verification**

We reviewed the Pasadena USD's Cost Allocation Plan, interviewed management and reviewed documentation to ensure that the expenditures were properly allocated to the District's programs.

**Results**

Pasadena USD did not have a written Cost Allocation Plan. During FY 2006-07, the District charged all allocable expenditures from their School Based Social Work Program to DMH even though the program served DMH and non-DMH clients.

**Recommendations****Pasadena USD management:**

7. **Develop a detailed and equitable Cost Allocation Plan and allocate costs in accordance with the Plan.**
8. **Allocate shared program costs for FY 2006-07 in accordance with the Plan and repay DMH for any amounts over billed.**

**COST REPORT****Objective**

Determine whether Pasadena USD's Cost Report reconciles to the District's financial records.

**Verification**

We interviewed management and traced the District's FY 2006-07 Cost Report to the District's DMH expenditures in their accounting records.

**Results**

Pasadena USD's FY 2006-07 Cost Report did not reconcile to the District's accounting records. In addition, as previously indicated Pasadena USD accounting records combined DMH and non-DMH expenditures.

**Recommendation**

9. **Pasadena USD management ensure that their annual Cost Report is supported by their accounting records prior to submitting the Cost Report to DMH.**



**PASADENA UNIFIED SCHOOL DISTRICT**  
**OFFICE OF THE ASSISTANT SUPERINTENDENT**  
**FOR BUSINESS SERVICES**

March 12, 2008

J. Tyler McCauley  
Los Angeles County  
Auditor-Controller  
Kenneth Hahn Hall of Administration  
500 West Temple Street Room 525  
Los Angeles, California 90012-2706

Dear Mr. McCauley:

We are writing to respond to the recently-completed Contract Compliance Review of the School Mental Health Program of the Pasadena Unified School District ("PUSD" or "District").

We were pleased to note that the service elements of the program received high marks, and that, with one minor exception, our clinical documentation was in full compliance with contractual expectations.

The following paragraphs represent the District's response to the nine individual recommendations.

**Recommendation**

- 1. Pasadena USD to ensure that Informed Consent is documented in the client's chart prior to treatment with psychotropic medication.**

The Clinical Director will retrain the Psychiatrist and Program Nurse regarding consent documentation requirements for informed prior consent and psychotropic medication. The Clinical Director will implement a mechanism to support the psychiatrist to avoid making errors of omission. The Clinical Director will establish a system to monitor that consent documentation is consistently entered and retained in the medical record. Date for Completion: 3/28/08

- 2. Ensure that program expenditures are supported by adequate documentation.**

PUSD adheres to generally accepted accounting principals (GAAP) and complies with the standard business procedures enforced by the Los Angeles County Office of Education. The documentation provided to the District by the Clinical Director met the District and Los Angeles County Office of Education accounting standards. The only area identified as problematic by the audit team involved a lack of specific documentation associated with invoices submitted by one subcontractor. This subcontractor had, in fact, complied with the District's requirements for such documentation but did not meet the standards considered by the audit team as complete.

The District undergoes an annual audit each year that includes specific testing of internal controls and appropriate procedures including adherence to GAAP. As a result of this audit finding, the PUSD Mental Health Program will require that all subcontractors specifically document the number of hours provided

*351 South Hudson Avenue • Pasadena, California 91109*  
*(626) 568-4536 • Fax (626) 432-1829*  
*E-mail [mmcclowry@pusd.us](mailto:mmcclowry@pusd.us)*  
*[www.pusd.us](http://www.pusd.us)*

and summarize the services performed then submit this extra documentation to the District. The change has been implemented effective 1/1/08 for the remainder of this fiscal year and in future years. The subcontractor has already provided voluminous material to the Department of Mental Health to document that the level of services provided during FY 2006-07 exceeded contractual levels.

**3. Ensure that only allowable program expenditures are charged to the DMH program.**

PUSD has never been reimbursed for unallowable expenditures. A revised Cost Report for FY 2006-07 has been prepared that clearly identifies allowable and unallowable expenditures. The questioned unallowable expenditures were associated with the Parenting Program that served non-DMH clients who were uninsured. These services were provided by a qualified subcontractor and the expenses were covered by third-party funds accounted for by the District separately from the program funds. These funds were clearly identified in the Negotiation Package submitted to the Department of Mental Health. The initial Cost Report did not show these funds correctly but a revised Cost Report will be submitted within 10 days of the date of this letter. The revised Cost Report clearly shows that the unallowable expenditures, including shared administrative costs, space use, and indirect costs associated with the non-DMH program have been identified and removed. Remaining allowable costs after this revision justify the amount paid by DMH.

**4. Repay DMH \$5,800 for the unallowable expenditures.**

As was explained at the time of the audit exit conference, the Auditor-Controller's identification of \$5,800 for "unallowable expenditures" was the result of a mis-understanding that occurred during a previous phone conversation with Auditor-Controller staff. As noted above, the District's accounting records indicated that the \$44,000 was in a designated third-party funding resource code. This error was reflected in the initial and first revised) Cost Reports. The total paid to the subcontractor organization that provided the English/Spanish parenting services was \$25,800. Available third party revenue totaled \$64,000. Because PUSD was never reimbursed for providing these services, there is nothing to be repaid.

**5. Establish a separate cost center for the non-DMH program.**

PUSD has established separate cost centers for DMH and non-DMH program services.

**6. Pasadena management (to) ensure that all staff expenditures charged to the DMH program are supported by time reports that reflect the actual hours worked, prepared at least monthly and are signed by the individual employee**

The PUSD Mental Health Program Clinical Director and staff have developed and implemented a time report system that will fully comply with the Auditor-Controller's recommendation. Although Program staff had been providing documentation that was in compliance with District policies, the new procedures will strengthen the supporting documentation for payroll expenditures. The Program has already begun collect the additional, recommended documentation.

**7. Develop a detailed and equitable Cost Allocation Plan and allocate costs in accordance with the Plan.**

As was discussed at the time of the auditors' visit, the District has developed a Cost Allocation Plan to track DMH and non-DMH services separately. The only such services not already accounted for as part of the unit-based calculations in the revised Cost Report were the Parenting Program Services which will be treated as follows: All subcontract costs will be allocated to non-DMH Services. In addition, the District will add its state-approved indirect cost rate (8.58% for FY 2006-07) and a portion of the Space Usage Allocation, based the program's utilization of the actual proportion of the overall space and the proportion of time that this space is used by the program, and a proportional allocation of the cost of the Administrative Coordinator based on the ratio of non-DMH direct costs to DMH direct costs.

8. **Allocate shared program costs for FY 2006-07 in accordance with the Plan and repay DMH.**

In response to the auditors' recommendations, PUSD has established separate cost centers for DMH and non-DMH expenditures. The receipt of more current data from the Department of Mental Health has allowed the Program Clinical Director and the District to revise its Cost Report to reflect the proportion of units that were denied and to reallocate expenses accordingly. The District was never reimbursed for providing "non-DMH expenditures", so there is nothing to repay.

9. **PUSD management ensure that their annual Cost Report is supported by their accounting records prior to submitting the Cost Report to DMH.**

PUSD is committed to assisting the Mental Health Program track and report expenditures that better meet the audit criteria. The Program Director will work with the District to prepare Cost Reports based upon the recommended procedures suggested by the audit team.

We believe that the above paragraphs represent a full and focused response to your recommendations.

We appreciate the time and effort that your Department and its personnel invested in this process.

Sincerely,

A handwritten signature in black ink, appearing to read "Edwin Diaz", written in a cursive style.

Edwin Diaz  
Superintendent

cc: Michele McClowry, Interim Assistant Superintendent, Business Services